

File B

ANNUAL REPORT

PREMIUM IRON ORES LIMITED

*For the year ending
December 31st, 1965*

Premium Iron Ores Limited

SUITE 1206,
80 KING ST. WEST,
TORONTO, ONTARIO

SUITE 1550,
550 SHERBROOKE ST. WEST,
MONTREAL, QUEBEC

BOARD OF DIRECTORS	HON. C. J. BURCHELL, PC., Q.C., LL.D.	Halifax, Nova Scotia
	P. E. CAVANAGH, P.ENG.	Montreal, Quebec
	WM. R. DALEY	Cleveland, Ohio
	M. S. FOTHERINGHAM, P.ENG.	Steep Rock Lake, Ontario
	DR. FAY A. LE FEVRE	Cleveland, Ohio
	HON. LEON MÉTHOT, Q.C.	Three Rivers, Quebec
	D. O. MUNGOVAN, Q.C.	Toronto, Ontario

OFFICERS *Chairman of the Board*
WM. R. DALEY

President
P. E. CAVANAGH, P.ENG.

Vice-President
M. S. FOTHERINGHAM, P.ENG.

Vice-President and Treasurer
D. O. MUNGOVAN, Q.C.

Secretary
HON. LEON MÉTHOT, Q.C.

GENERAL COUNSEL	MUNGOVAN & MUNGOVAN	Toronto, Ontario
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AUDITORS	NEFF, GOODWIN & Co.	Toronto, Ontario
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REGISTRARS AND TRANSFER AGENTS	GUARANTY TRUST COMPANY OF CANADA — AND — CENTRAL NATIONAL BANK OF CLEVELAND	Toronto, Ontario Cleveland, Ohio
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Premium Iron Ores Limited

TO THE SHAREHOLDERS:

Your Company's net profit for 1965 was \$168,039 after providing \$22,600 for income taxes. Dividend No. 40 of 7¢ per share was paid to shareholders in December 1965.

Your Company owns 600,000 common shares of Steep Rock Iron Mines Limited on which a dividend of 30¢ per share was received in December 1965. In 1965 the total output of 3,709,888 tons of iron ore from the Steep Rock range was 14% higher than the 1964 output. Steep Rock sold 1,264,176 tons from its own operations which was slightly higher than the 1964 output. Caland Iron Ores Limited shipped 2,445,712 tons of royalty ore from the "C" ore zone to meet the requirements of its parent, Inland Steel Company of Chicago.

A major change in the operation is now under way at Steep Rock. A pellet plant is now under construction and will be in operation making pellets from the Steep Rock ore in 1967. Production of pellets should result in significantly higher profits per ton of ore mined. This advance has been made possible by the joint venture agreement between Steep Rock and Algoma Steel Company Limited providing for operation of Steep Rock open pits to supply Algoma with 1,800,000 tons of direct shipping ore while the pellet plant is being built, and with a minimum of 1,100,000 tons of pellets per year for the following 20 years. This joint venture agreement made possible the construction of the initial facilities for producing pellets.

The open pit ore assigned to the joint venture project with Algoma represents only about 10% of the known ore reserves remaining to Steep Rock. Further contracts are now being negotiated with other steel companies to supply them with pellets produced from some areas of the remaining reserves. The pellet plant has been designed so that it can readily be doubled in capacity and this is the present objective of the Steep Rock programme of further pellet sales.

Operations at Steep Rock in 1965 illustrate the present and future difficulties of selling direct shipping ore in the open market. Customers will now buy only coarse ore, and the finer fraction which must be screened out of the as-mined ore is, therefore, added to waste stockpiles. This results in a major increase in operating cost per ton of ore sold. The existing waste stockpiles will generate a significant increase in profits when they are processed through the pelletizing plant to a saleable pellet product in the years to come.

Net earnings of Steep Rock were \$3,627,000 or 45¢ per share in 1965. Copies of the Steep Rock Annual Report are available and will be mailed to Premium shareholders on request.

All the iron ore mined from presently producing open pits at Steep Rock will be delivered under contract to Algoma. No other ore is presently available for sale, and Steep Rock has, therefore, elected to terminate its sales agency contract with Premium as of December 31, 1967. Under that contract Premium was entitled to commissions on sales by Steep Rock to the Cleveland-Cliffs Iron Company and on other sales made through Premium. The sales agreement between Steep Rock and Cleveland-Cliffs terminated as of December 31, 1965, with approximately 600,000 tons of ore remaining to be delivered in 1966 and on which Premium will earn its commission. The extent of other sales made through Premium, if any, in 1966 and 1967 cannot be determined at this time.

At Steep Rock's request, Premium has agreed to design, build and operate a Special Products Pilot Plant at Steep Rock to treat underground ore. Premium will be paid by Steep Rock for these services.

Further studies were carried out in 1965 on the major Ungava development in which your Company participates along with Steep Rock Iron Mines Limited, the Cleveland-Cliffs Iron Company and five major German steel companies. Access roads and camps on the Atlantic concession are completed and are in excellent shape.

No decision has yet been made to proceed with the Ungava development in view of the buyer's market for iron ore in Europe.

Leaseway Ltd., in which your Company participates in association with the Leaseway group of companies, one of the largest and strongest groups in the equipment leasing business in the United States, increased operating profits in 1965. The potential in the leasing field in Canada is very great but current tight money conditions make it difficult for Leaseway to take full advantage of this situation.

Your Company's investigations of favorable investment opportunities for diversification into several industries are continuing.

Respectfully submitted,

WM. R. DALEY,
Chairman.
P. E. CAVANAGH,
President.

May 3, 1966

Premium Iron Ores Limited

(Incorporated under the laws of Ontario)

AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1965

ASSETS

	1965	1964
CURRENT ASSETS:		
Cash	\$ 81,402	\$ 311,291
Accounts receivable	82,683	67,651
Notes receivable — Leaseway Ltd. (note 4)	495,000	188,000
Investments in common stocks at market value		
Steep Rock Iron Mines Limited..... 600,000 shares	4,110,000	3,420,000
Detroit Steel Corporation..... 21,715 shares	396,957	300,025
	<u>\$ 5,166,042</u>	<u>\$ 4,286,967</u>
Income tax and interest paid on assessments under appeal (note 3)	<u>\$ 350,453</u>	<u>\$ 339,989</u>
INVESTMENTS — at cost		
Leaseway Ltd. (and associated companies) (note 4)		
Capital stocks	\$ 37,500	\$ 37,500
Ungava Iron Ores Company		
Capital stock	500,000	500,000
Advances	1,409,253	1,371,303
Other capital stocks	16,049	21,049
	<u>\$ 1,962,802</u>	<u>\$ 1,929,852</u>
FIXED ASSETS — at cost		
Metallurgical and office equipment	\$ 26,493	\$ 26,493
Patents	5,576	5,576
	<u>\$ 32,069</u>	<u>\$ 32,069</u>
Less: Depreciation	21,089	19,161
	<u>\$ 10,980</u>	<u>\$ 12,908</u>
OTHER ASSETS:		
Deferred charges	\$ 7,938	\$ 6,215
Subsidiary companies		
Mining exploration licenses — at cost	269,458	269,458
Deferred exploration expenditure	978,571	963,631
	<u>\$ 1,255,967</u>	<u>\$ 1,239,304</u>
	<u><u>\$ 8,746,244</u></u>	<u><u>\$ 7,809,020</u></u>

Approved on behalf of the Board:

“WM. R. DALEY,” Director.

“P. E. CAVANAGH,” Director.

Premium Iron Ores Limited

LIABILITIES

CURRENT LIABILITIES:	1965	1964
Bank loan — secured	\$ 425,000	\$ 310,000
Accounts payable and accrued liabilities	38,175	45,803
Estimated income taxes payable	66,566	47,542
	<u>\$ 529,741</u>	<u>\$ 403,345</u>
Provision for contingencies (note 3)	\$ 367,900	\$ 369,800
Minority interests in subsidiary companies	\$ 1,035,921	\$ 1,035,921
Advances by minority interests to subsidiary companies	654,725	628,754
	<u>\$ 1,690,646</u>	<u>\$ 1,664,675</u>
Excess of book value of net assets of subsidiaries over cost of investments therein	\$ 292,710	\$ 292,710

SHAREHOLDERS' EQUITY

Capital stock (note 2)		
Authorized, 5,000,000 shares of 20¢ each		
Issued, 2,364,000 shares	\$ 472,800	\$ 472,800
Contributed surplus	1,816,700	1,816,700
Unrealized appreciation of investments in common stocks shown at market value (note 6) ..	3,573,011	2,786,079
Earned surplus	2,736	2,911
	<u>\$ 5,865,247</u>	<u>\$ 5,078,490</u>
	<u>\$ 8,746,244</u>	<u>\$ 7,809,020</u>

AUDITORS' REPORT TO THE SHAREHOLDERS:

We have examined the consolidated balance sheet of Premium Iron Ores Limited as at December 31, 1965 and the statements of profit and loss and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of profit and loss and earned surplus present fairly the financial position of the Company and its subsidiaries as at December 31, 1965 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
May 1st, 1966.

NEFF, GOODWIN & CO.
Chartered Accountants

Premium Iron Ores Limited

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1965

1. CONSOLIDATED BALANCE SHEET

The consolidated balance sheet of Premium Iron Ores Limited includes the accounts of Glendora Holdings Limited, International Iron Ores Limited, Atlantic Iron Ores Limited and Champlain Mining Corporation. Premium Iron Ores Limited and Glendora Holdings Limited (wholly-owned by Premium Iron Ores Limited) own 63% of the issued capital stock of International Iron Ores Limited. International Iron Ores Limited and its wholly-owned subsidiary Atlantic Iron Ores Limited, are Quebec mining companies which hold mining exploration licenses from the Province of Quebec.

International Iron Ores Limited owns 60% of the issued capital stock of Champlain Mining Corporation, and Champlain Mining Corporation owns 50% of the issued capital stock of Ungava Iron Ores Company.

The Company's wholly-owned subsidiary, Resource Developments Limited, was wound up in 1965.

No profits have been earned or losses sustained by any of the subsidiary companies.

2. SHARE PURCHASE OPTIONS

Share purchase options have been granted to officers of the Company in respect of a total of 50,000 shares of the Company's capital stock as follows:

- (a) 25,000 shares at \$3.00 per share exercisable (on a cumulative basis) as to 5,000 shares in each of the five years commencing December 13, 1962.
- (b) 25,000 shares at \$1.65 per share exercisable (on a cumulative basis) as to 5,000 shares in each of the five years commencing November 2, 1963. Of these, 2400 shares have been taken down and paid for since December 31, 1965.

These options terminate on cessation of employment.

3. INCOME TAX UNDER APPEAL

In a judgment dated January 12, 1959, the Income Tax Appeal Board allowed the Company's appeal in that part of its claim in respect of which these amounts have been paid. The appeal of the Minister of National Revenue against this decision was allowed by the Exchequer Court of Canada in a judgment dated June 19, 1964. The Company's appeal to the Supreme Court of Canada was heard in November 1965, but no decision has yet been handed down. An offsetting amount of \$350,500 is included in the provision for contingencies.

4. LEASEWAY LTD. — CONTINGENT LIABILITIES

The Company owns 47.5% of the issued capital stock of Leaseway Ltd. In addition to advances of \$495,000 to Leaseway Ltd. and its subsidiary, which advances are secured by demand notes, the Company has guaranteed certain bank loans and notes payable. At December 31, 1965, the contingent liability in respect of such guarantees was \$547,500.

In addition, the Company and another corporate shareholder have jointly and severally agreed to provide further amounts up to \$50,000 by way of loans to a Leaseway Ltd. subsidiary.

Pursuant to the intervention in an equipment lease agreement terminating July 20, 1969, between Leaseway Ltd., and a customer, the Company, together with another corporate shareholder of Leaseway Ltd., has jointly and severally bound itself with Leaseway Ltd., for the fulfilment and performance of the obligations of Leaseway Ltd., under the said agreement.

5. STEEP ROCK IRON MINES LIMITED CONTRACT

Steep Rock Iron Mines Limited has terminated its agency contract with the Company as of December 31, 1967. Under that contract the Company was entitled to commissions on sales by Steep Rock to the Cleveland-Cliffs Iron Company and on other sales made through Premium. The sales agreement between Steep Rock and Cleveland-Cliffs terminated as of December 31, 1965, with approximately 600,000 tons of ore remaining to be delivered in 1966 and on which Premium would earn its commission. The extent of other sales made through Premium, if any, in 1966 and 1967 cannot be determined at this time.

6. INVESTMENTS AT MARKET VALUE

	1965	1964
Steep Rock Iron Mines Limited — cost	\$ 690,210	\$ 690,210
Detroit Steel Corporation — cost	243,736	243,736
Total market value	\$ 933,946	\$ 933,946
	4,506,957	3,720,025
Unrealized appreciation	\$ 3,573,011	\$ 2,786,079

Premium Iron Ores Limited

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1965

INCOME:	1965	1964
Commission earned on ore sales.....	\$ 161,548	\$ 154,959
Interest and dividends.....	210,766	177,448
Services	4,900	17,681
	<u>\$ 377,214</u>	<u>\$ 350,088</u>
EXPENSES:		
Commission	\$ 32,309	\$ 30,992
Selling and travelling expenses.....	31,008	23,534
Executive, engineering and office salaries	37,526	33,435
Directors fees	1,500	1,500
Office rent, services and expenses	16,876	13,953
Professional and transfer agency fees	44,883	31,819
Metallurgical testing and analysis	6,192	1,345
Bank interest	12,615	3,504
Depreciation	1,928	2,290
Other general expenses	1,738	3,695
	<u>\$ 186,575</u>	<u>\$ 146,067</u>
OPERATING PROFIT.....	\$ 190,639	\$ 204,021
Provision for income taxes	22,600	49,000
NET PROFIT FOR THE YEAR.....	<u>\$ 168,039</u>	<u>\$ 155,021</u>

STATEMENT OF EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1965

	1965	1964
Balance, January 1	\$ 2,911	\$ 28,160
Add: Net profit for the year	168,039	155,021
Profit (loss) on sale of investments	(2,734)	127,410
	<u>\$ 168,216</u>	<u>\$ 310,591</u>
Deduct:		
Dividend # 39, 12 cents per share		\$ 283,680
Dividend # 40, 7 cents per share	\$ 165,480	
Provision for contingencies		24,000
	<u>\$ 165,480</u>	<u>\$ 307,680</u>
Balance, December 31	<u>\$ 2,736</u>	<u>\$ 2,911</u>

